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Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01
INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02
CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
CEA-01 PA-02 PRS-01 AGRE-00 /094 W
----------120634Z 013822 /11/66
R 112035Z JAN 77
FM AMEMBASSY SAN JOSE
TO SECSTATE WASHDC 6147
INFO AMEMBASSY GUATEMALA
AMEMBASSY MANAGUA
AMEMBASSY PANAMA
AMEMBASSY SAN SALVADOR
AMEMBASSY TEGUCIGALPA
AMEMBASSY BOGOTA

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GUATEMALA ALSO FOR ROCAP

C O R R E C T E D C O P Y FOR TEXT GARBLED THROUGHOUT

E.O. 11652: N/A
TAGS: EFIN, EPAP, ETRD, CS
SUBJECT: COSTA RICA ANNOUNCED ANTI-INFLATIONARY MEASURES

1. SUMMARY. COSTA RICA HAS ANNOUNCED A SERIES OF MEASURES TO DEAL WITH THE PROBLEM OF EXCESS LIQUIDITY RESULTING FROM HIGH COFFEE PRICES. IT HAS ALSO BEEN ANNOUNCED THAT COSTA RICA SUPPORTS THE PROPOSAL OF THE PRESIDENT OF COLOMBIA TO FREEZE COFFEE PRICES IN ORDER TO AVOID A FURTHER SPREAD OF THE CONSUMER BOYCOTT. END SUMMARY.

2. CENTRAL BANK PRESIDENT, BERNAL JIMENEZ, ANNOUNCED JANAURY 10 A SERIES OF ANTI-INFLATIONARY MEASURES DESIGNED TO DEAL WITH PROBLEMS OF EXCESS LIQUIDITY RESULTING FROM
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EXCEPTIONALLY HIGH COFFEE PRICES:

A. COFFEE BONDS - THE GOVERNMENT WILL ISSUE 500 MILLION COLONES WORTH OF COFFEE BONDS AND ATTEMPT TO CAPTURE EXCESS LIQUIDITY FROM COFFEE PRODUCERS.

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B. INCREASE IN RESERVE REQUIREMENTS - THE CENTRAL
BANK WILL PROGRESSIVELY INCREASE MANDATORY
RESERVE REQUIREMENTS FOR COMMERCIAL BANKS. FOR
DEMAND DEPOSITS AND TIME DEPOSITS OF UP TO
30 DAYS THE RATE WILL RISE BY 1 PERCENT PER MONTH FROM
THE PRESENT LEVEL OF 20 PERCENT UNTIL IT REACHES 30 PERCENT
IN OCTOBER OF THIS YEAR. THE RESERVE REQUIREMENT
FOR DEPOSITS OF MORE THAN 30 DAYS WILL RISE BY
1/2 PERCENT PER MONTH FROM THE PRESENT LEVEL OF 10 PERCENT UNTIL
IT REACHES 15 PERCENT, ALSO IN OCTOBER 1977.

C. REDUCTION OF REDISCOUNT FACILITY - CENTRAL
BANK REDISCOUNTS (LOANS TO COMMERCIAL BANKS ON
CREDIT INSTRUMENTS) WILL NOT BE PERMITTED TO
EXCEED 208 MILLION COLONES THIS YEAR, IN COMPARISON
TO A MAXIMUM OF 238 MILLION COLONES ATTAINED
IN 1976. THE LIMIT WILL BE LOWERED MORE DRASTICALLY
IN CERTAIN SEASONS WHEN THE CENTRAL BANK EXPECTS
A STATE OF GREATER LIQUIDITY IN THE ECONOMY AS IN
JUNE WHEN THE LIMIT WILL BE 138 MILLION COLONES
AND IN SEPTEMBER WHEN IT WILL BE ONLY 69 MILLION
COLONES.

D. INCREASED INTEREST RATES FOR COFFEE PRODUCERS -
SMALL COFFEE PRODUCERS WILL PAY 12 PERCENT INTEREST
FOR BANK LOANS AND OTHER COFFEE PRODUCERS WILL
PAY 14 PERCENT. FORMERLY, COFFEE PRODUCERS PAID FROM
7 PERCENT TO 9 PERCENT. OTHER INTEREST RATES, WHICH REMAIN
UNCHANGED FOR 1977, ARE 8 PERCENT TO 12 PERCENT FOR AGRICULTURE
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AND INDUSTRY, 8 PERCENT TO 10 PERCENT FOR ELECTRICIL AND
ENERGY SECTOR, 12 PERCENT TO 20 PERCENT FOR COMMERCE AND FOR
PERSONAL LOANS, 10 PERCENT FOR LOW INCOME HOUSING, AND
8 PERCENT TO 12 PERCENT FOR TRANSPORTATION AND WAREHOUSING.

E. RESTRAINT ON CREDIT GROWTH - THE CENTRAL BANK
EXPECTS TO HOLD THE TOTAL GROWTH OF BANK CREDIT
TO 15 PERCENT AS COMPARED TO 22 PERCENT LAST YEAR.

F. HIGH RATES ON BANK DEPOSITS - THE INTEREST
RATES PAID BY COMMERCIAL BANKS FOR VARIOUS TYPES
OF DEPOSITS WILL BE MAINTAINED ABOVE RATES
ABROAD IN ORDER TO AVOID CAPITAL FLIGHT AND TO
ATTRACT FOREIGN CAPITAL. THE RATES ON DOLLAR DE-
POSITS OF MORE THAN 6 MONTHS WILL BE 1.5 PERCENT ABOVE
THE LONDON INTER-BANK RATE (LIBO). RATES ON
COLON DEPOSITS WILL BE 9 PERCENT FOR 6 MONTH DEPOSITS
AND WILL RANGE UPWARD TO A MAXIMUM OF 13 PERCENT ON
48-MONTH DEPOSITS. SAVINGS ACCOUNTS SUBJECT TO PAYMENT

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ON DEMAND WILL PAY 6 PERCENT, IF IN COLONES, AND 3 PERCENT IF
IN DOLLARS.

3. IN ANNOUNCING THESE MEASURES, BERNAL JIMENEZ

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OBSERVED THAT THE COSTA RICAN GOVERNMENT HAS NEVER
BEFORE USED ITS AUTHORITY TO VARY RESERVE REQUIREMENTS AS MEANS

OF CONTROLLING THE MONEY SUPPLY. THE MEASURES OUTLINED ABOVE

WILL BE DISCUSSED BY THE CENTRAL BANKERS OF CENTRAL AMERICA AT
A MEETING TO BE HELD IN PUNTARENAS, COSTA RICA, JANUARY 14. THE PRIN-
CIPLE TOPIC OF THE MEETING IS EXPECTED TO BE THE NEED TO TAKE
MEASURES TO STERILIZE THE INFLATION THAT THREATENS CENTRAL
AMERICA AS A RESULT OF EXTRAORDINARILY HIGH COFFEE PRICES.

4. THE PRESIDENT OF THE CHAMBER OF COFFEE PRODUCERS, JUAN RAFAEL
ARIAS TREJOS, HAS ANNOUNCED THAT THE COFFEE PRODUCERS SUPPORT THE
RESTRICTIONS ON THEIR ACCESS TO CREDIT, AS THEY ARE NOW IN A
POSITION TO FINANCE THEMSELVES. ARIAS ALSO SAID THAT THEY SUPPORT
THE ISSUANCE OF COFFEE BONDS AND PREDICTED THAT THERE WILL BE
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A STRONG DEMAND FOR THEM AMONG COFFEE PRODUCERS. HE SAID THAT COFFEE PRODUCERS SHOULD INCREASE THEIR SAVINGS TO PROVIDE FOR THE FUTURE, WHEN COFFEE PRICES WILL FALL AGAIN. IT WILL BE RECALLED THAT THE COFFEE PRODUCERS SUCCESSFULLY OPPOSED AN EFFORT BY THE GOVERNMENT LAST FALL TO INCREASE THE EXPORT TAX ON COFFEE. CLEARLY, THE NEW MEASURES ARE MORE ACCEPTABLE TO THEM.

4. IN ANOTHER DEVELOPMENT RELATING TO HIGH COFFEE PRICES, THE DIRECTOR OF THE COFFEE OFFICE, ALVARO JIMENEZ CASTRO, ANNOUNCED THAT COSTA RICA FAVORS THE PROPOSAL OF COLOMBIAN PRESIDENT LOPEZ MICHELSON TO STABILIZE THE PRICE OF COFFEE AT A REASONABLE AND MUTUALLY BENEFICIAL LEVEL IN ORDER TO PREVENT THE SPREAD OF THE CONSUMER BOYCOTT. KILDAY

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